IOI Corporation (IOI MK)

1QFY26 Results Preview: Sequentially Higher Output, ASPs

HOLD (Maintained)	
Share Price	RM3.96
Target Price	RM3.80
Upside	-4.0%

Highlights

- We expect IOI's 1QFY26 core net profit to come in 10-15% higher qoq, namely on sequentially higher FFB production output, alongside improved palm selling prices.
- FFB production growth, which came in at +2% yoy for 1QFY26, is likely to accelerate in the following quarter.
- Maintain HOLD on IOI with higher target price of RM3.80 (from RM3.70).

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Analysis

- **1QFY26 results preview.** IOI Corporation (IOI) is expected to release its 1QFY26 results in late-November. We forecast 1QFY26 core earnings to rise 10-15% qoq to RM355m-370m, mainly attributable to stronger performance of its upstream plantation segment. This in turn was driven by both higher production output – with FFB output up 5.7% qoq – as well as higher ASPs, given the qoq recovery in market prices for CPO and palm kernel (PK).
- **Higher ASPs to drive plantation segment.** Upstream earnings should benefit from a recovery in ASPs, as average spot prices for both CPO and PK increased by around RM215/tonne and RM100/tonne to RM4,270/tonne and RM3,440/tonne respectively. That said, the positive impact in terms of realised prices may be lesser, given the group's realised ASP of RM4,208/tonne and RM3,461/tonne for CPO and PK in 4QFY25 given IOI's forward-selling position. On a separate note, the price ratio of PK to CPO has moderated from 83% to 80% in 1QFY25; this is deemed more favourable to the group's earnings profile given its vertically-integrated operations.
- **Production growth to pick up from 2QFY26.** On a yoy basis, FFB output rose 2.3% yoy in 1QFY26, which is somewhat short of management's full-year FFB growth target of 5-10% yoy set for FY26. Nonetheless, we anticipate output growth to rise faster in the next two quarters, driven by: a) the low-base effect, given production disappointments in 2QFY25 and 3QFY25 which saw FFB output contract by 6.2% and 5.0% yoy respectively; and b) incremental contribution by its maturing young palms, which management earlier guided would be reflected progressively throughout FY26.

Key Financials

Year to 30 Jun (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	9,604	11,335	11,146	11,349	11,459
EBITDA	1,537	1,837	1,914	1,997	2,067
Operating profit	1,140	1,432	1,482	1,549	1,608
Net profit (rep./act.)	1,088	1,521	1,359	1,450	1,512
Net profit (adj.)	1,088	1,320	1,359	1,450	1,512
EPS (sen)	17.3	21.0	21.6	23.1	24.1
PE (x)	21.5	18.8	18.3	17.1	16.4
P/B (x)	2.0	2.0	1.9	1.8	1.7
EV/EBITDA (x)	24.6	14.6	14.1	13.3	12.6
Dividend yield (%)	2.6	2.7	2.8	3.0	3.2
Net margin (%)	11.3	13.4	12.2	12.8	13.2
Net debt/(cash) to equity (%)	13	13.3	13.3	9.7	6.0
Interest cover (x)	13	17.1	18.4	19.7	23.2
ROE (%)	9.5	14.2	12.3	12.7	12.9
Consensus net profit	-	-	1,310	1,321	1,389
UOBKH/Consensus (x)	-	-	1.04	1.10	1.09

Source: IOI Corporation, Bloomberg, UOB Kay Hian

Stock Data

GICS sector	Consumer Staples
Bloomberg ticker:	IOI MK
Shares issued (m):	6,285.2
Market cap (RMm):	24,826.5
Market cap (US$m):	5,902.7
3-mth avg daily t'over (US$m):	2.2

Price Performance (%)

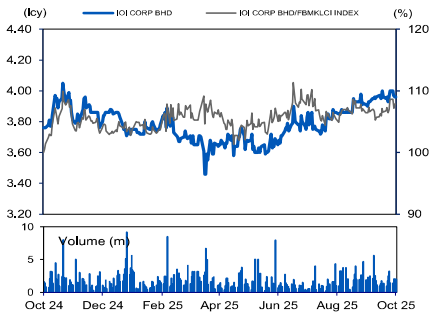
52-week high/low				RM4.08/RM3.42
1mth	3mth	6mth	1yr	YTD
5.6	8.2	6.5	1.8	(2.1)

Major Shareholders

Progressive Holdings SB	50.5%

FY25 NAV/Share (RM)	1.96
FY25 Net Debt/Share (RM)	0.26

Price Chart



Source: Bloomberg

Company Description

Integrated palm oil player.

Valuation/Recommendation

- **Maintain HOLD with a higher target price of RM3.80** up from RM3.70 previously. The increase to our SOTP valuation is attributed to our higher revised fair value of S$1.20 (up from S$0.90) for associate-owned Bumitama. While we are positive on IOI's upstream production growth trajectory, we remain wary of its downstream segment's continued underperformance. Other SOTP valuation parameters remain unchanged: at 17x FY25F PE for the plantation division, 15x FY25F PE for the resources-based manufacturing (downstream) division, and 18x for the contribution from associate Loders.

Earnings Revision/Risk

- **FY26-28 estimates increased by 2% respectively**. This comes as we incorporate our recent earnings upgrade for IOI's associate, Bumitama, to the group's financials. After the revision, we project FY26 core net profit to increase 5% yoy, anchored by a 6.1% yoy increase in FFB production output.

Share Price Catalyst

- Better-than-expected CPO prices.
- Higher-than-expected FFB production growth.
- Improvement in its downstream margin.

Environmental Social Governance (ESG) Updates

Environmental

- All Malaysian estates are MSPO-certified, while 96% of the estates are RSPO-certified.
- IOI has not been contacted by the US Customs and Border Protection (CBP) regarding its investigation. Nevertheless, IOI will take the proactive step in contacting CBP to confirm the existence of an investigation and offer its cooperation in providing explanation and documents to assist the investigation.

Social

- Transparent communication and response to any ongoing cases involving the community.
- Implementation of programmes related to health, education, medical assistance, and other community enrichment acts.

Governance

- Transparent governance along with an Anti-Bribery and Anti-Corruption Policy.

Key Assumptions

	FY26F
FFB production growth	6.1% yoy
CPO Prices	RM4,000/tonne
Downstream Margin	1.5%

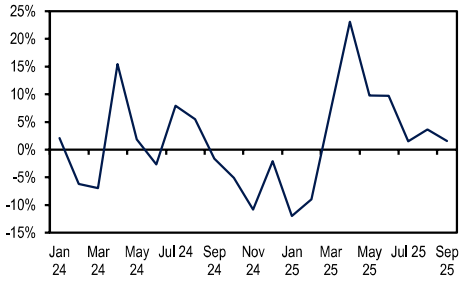
Source: UOBKH

SOTP Valuation

	PE (x)	RM/share
Plantations	17	2.92
Manufacturing	15	0.27
Stake in Bumitama (Fair value: S$1.20/share)	-	0.35
Contribution from Loders	18	0.50
Less: Net Debt		(0.26)
IOI's fair value (round-off)		**3.80**

Source: IOI Corporation, UOBKH

Monthly FFB Production Growth



Source: IOI Corporation

Profit & Loss

Year to 30 Jun (RMm)	2025	2026F	2027F	2028F
Net turnover	11,335	11,146	11,349	11,459
EBITDA	1,837	1,914	1,997	2,067
Deprec. & amort.	405	431	448	459
EBIT	1,432	1,482	1,549	1,608
Total other non-operating income	0	0	0	0
Associate contributions	351	337	371	389
Net interest income/(expense)	(107)	(104)	(101)	(89)
Pre-tax profit	1,878	1,716	1,819	1,908
Tax	(341)	(343)	(354)	(381)
Minorities	(16)	(14)	(15)	(15)
Net profit	1,521	1,359	1,450	1,512
Net profit (adj.)	1,320	1,359	1,450	1,512

Balance Sheet

Year to 30 Jun (RMm)	2025	2026F	2027F	2028F
Fixed assets	9,532	9,814	10,083	10,328
Other LT assets	3,184	3,215	3,247	3,279
Cash/ST investment	1,452	1,336	1,291	1,788
Other current assets	125	125	125	125
Total assets	17,792	18,126	18,518	19,239
ST debt	709	709	709	709
Other current liabilities	260	260	260	260
LT debt	2,807	2,618	2,430	2,098
Other LT liabilities	1,206	1,056	906	906
Shareholders' equity	11,582	12,202	12,879	13,641
Minority interest	344	358	372	382
Total liabilities & equity	17,792	18,126	18,518	19,239

Cash Flow

Year to 30 Jun (RMm)	2025	2026F	2027F	2028F
Operating	944	1,366	1,702	1,800
Pre-tax profit	1,878	1,714	1,817	1,906
Tax	(341)	(343)	(354)	(381)
Deprec. & amort.	405	431	448	459
Working capital changes	(275)	(270)	(41)	(22)
Other operating cashflows	(722)	(165)	(167)	(162)
Investing	-537	-536	-536	-536
Capex (maintenance)	(700)	(900)	(700)	(700)
Investments	0	0	0	0
Proceeds from sale of assets	2	3	3	3
Others	162	162	162	162
Financing	(864)	(909)	(956)	(988)
Dividend payments	(660)	(706)	(753)	(785)
Issue of shares	0	0	0	0
Proceeds from borrowings	3	4	4	4
Loan repayment	(193)	(193)	(193)	(193)
Others/interest paid	(14)	(14)	(14)	(14)
Net cash inflow (outflow)	(456)	(278)	211	277
Beginning cash & cash equivalent	2,182	1,578	1,300	1,511
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	1,725	1,300	1,511	1,788

Key Metrics

Year to 30 Jun (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	17.3	16.3	16.5	16.5
Pre-tax margin	16.1	15.6	16.3	16.3
Net margin	12.1	11.7	12.3	12.3
ROA	7.6	7.6	8.2	8.2
ROE	12.6	12.4	13.1	13.1
Growth				
Turnover	12.2	4.4	4.3	4.3
EBITDA	21.1	-1.6	5.4	5.4
Pre-tax profit	24.2	0.7	9.3	9.3
Net profit	17.8	0.7	9.3	9.3
Net profit (adj.)	17.8	0.7	9.3	9.3
EPS	17.8	0.7	9.3	9.3
Leverage				
Debt to total capital	29.5	26.5	23.7	23.7
Debt to equity	30.3	27.3	24.4	24.4
Net debt/(cash) to equity	17.8	16.3	14.3	14.3
Interest cover (x)	12.2	12.9	14.8	14.8

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